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WHAT PMs ARE THINKING

Buyers expect 1983 price acceleration

Don't count on a repeat of 1982's bargain-basement prices—at least as far as overall industrial averages are concerned.

To be sure, there's little likelihood of any new outbreak of double-digit inflation—and purchasing managers still expect to have plenty of bargaining leverage. But by the same token, most PMs are reconciled to some price acceleration.

A new *PurchasingWorld* survey tells the story. Specifically, an impressive 71% of the respondents see 1983 price averages topping those experienced during the past 12 months.

As one Cleveland-based purchasing executive puts it, "Some acceleration is inevitable—given the profit squeeze faced by so many of our suppliers. But if the recovery is as slow as most forecasts suggest, we should be able to keep boosts within modest bounds."

Here's a more detailed rundown on how he and his colleagues see the price picture developing:

■ **Current price performance:** An impressive 68% of responding buyers say 1982 prices are averaging out at or under last year's levels—with an additional 25% putting the advance in the low 1-3% range (see chart). More significant: Not a single respondent puts his average hike above 6% for the year as a whole.

■ **Anticipated 1983 trends:** While no one expects any overall decline (in sharp contrast to the 25% who were lucky enough to experience reductions during the current year), a fairly impressive 21% still think they can hold averages at 1982 levels. More symptomatic of 1983: Almost one out of two put the average advance in 1983 in the 4-6% range. On the other hand, not one expects any return to double-digit increases.

■ **Specific 1983 weaknesses:** Sectors mentioned by respondents as likely to remain soft in 1983 include castings, paper products, steel, copper, aluminum, lumber, and motors.

■ **Areas of likely 1983 strength:** The listing here (again based on more than one mention) is relatively small—limited to plastic resins, petrochemicals, energy and a few machinery lines. A few feel electronic components could be firmer next year, too.

■ **Extended price protection:** A significant number of PMs are still managing to extract price guarantees of six months or longer from suppliers. Specifically, more than one out of three now say that 40% or more of their product mix is so pro-

tected—with another one out of four wresting such guarantees from 20-30% of their suppliers. This is just about in line with the findings of a year ago when a similar question was posed.

■ **Inflation factors:** Buyers are somewhat divided about the strength of the various inflation forces in 1983. But a few discernible trends are noted—namely (1) the energy and demand factors may be slightly stronger—and (2) the labor and interest rate factors could be slightly weaker.

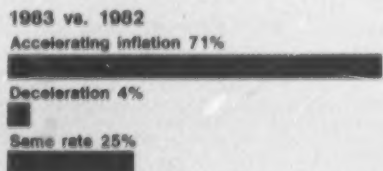
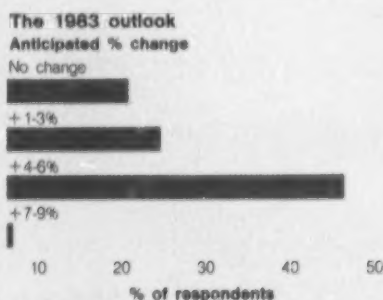
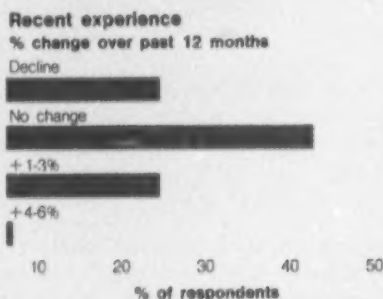
■ **The role of imports:** Purchasing managers expect to continue relying on overseas purchases to keep price hikes within bounds. Indeed, 36% see foreign buys playing an even bigger price role in 1983—far more than the 11% who see trade curbs making imports less of an inflation-inhibiting factor.

One thing almost every buyer is agreed upon: There will be no letup in the drive to keep a lid on price hikes. Thus, aside from continuing to play their import cards, PMs expect to rely on such time-tested strategies as (1) value analysis, (2) more long-term contracting with significant price guarantees built into these pacts, (3) consignment shipments, (4) more make/buy decisions, (5) more subcontracting of fabrication activities, and (6) tighter inventory controls.

Most PMs also expect to hang tough on vendor price increases—refusing to accept any and all hikes in what they consider to be soft markets. Another interesting wrinkle: Several buyers are pushing up bargaining schedules to lock in pacts before markets begin to firm up again.

A purchasing executive for a large Eastern metalworking firm sums it all up. "We're still in the driver's seat," he says. "And while I would expect prices to rise as 1982 wears on, the improvement will be slow and gradual—with plenty of bargains available for those willing to take the time to shop around." **PW**

Price trends into 1983: What purchasers expect



Source: *PurchasingWorld*

PW PREDICTS

Modest price boosts coming

Some modest price acceleration may not be too far off.

Cost pressures would certainly seem to indicate as much—as profits continue to shrink. Latest financial statistics provide the details—with after-tax profits per dollar of sales down in the low 3½% range—far under the 5%-plus readings of the past five years. And if you zero in on some key raw material and equipment industries, the figures are a lot worse than that. It's a situation that can't go on indefinitely.

Demand, too, seems to be ready to bottom out. And while the modest gains looming ahead are not likely to be robust enough to permit big across-the-board price boosts, there may be enough strength around by next spring to effect a narrowing of discounts and perhaps even a few spotty hikes in list levels.



Confirmation of a coming shift is also suggested by most econometric forecasting models. Plugging the above cost and demand factors into their equations, they conclude that price averages will advance to a near 5-6% rate over the next few years.

Also pointing in this direction are the forecasts many large corporations are making for their 1983 and 1984 budgets. They're generally running in the 5-7% range.

Even more significant, the majority of purchasing executives are beginning to think in the same terms. A nationwide *PurchasingWorld* survey, for example, finds that 71% of responding buyers are now reconciled to some price acceleration in 1983. Indeed, nearly one out of every two put the expected increase in the 4-6% range—not far from the figures being used by the big econometric models and top corporate executives.

On a somewhat more cheery note, however, there are no signs of any bounceback to double digit rates. The latter is just not in the cards—not next year, not in 1984, and probably not in 1985 either.

One reason is it would take at least three years of 3-4% annual GNP growth to bring currently low factory operating rates back up to the 80% range—a level most economists say is necessary if any strong upward demand pressure on prices is to develop.

Nor are any significant labor imbalances likely—not with unemployment in the 10% range and not expected to dip below the 8-9% level over the next year or two.

Putting it all another way—the sharpest recession in 50 years has left the economy with plenty of elbow room for sustained economic recovery.

The point to keep in mind: Today's big 11% shortfall gives the country a heck of a lot of leeway for growth—without the kind of overheating that has traditionally tended to generate runaway inflation.

Zinc

No price recovery is seen until the metal's two key markets—construction and autos—begin to pick up. Other signs of weakness: (1) low operating rates, with North American producers down in the 75% range, (2) rising stocks (domestic holdings jumped 8% in September), and (3) continued domestic closures—the latest being the shutdown of the big Corpus Christi refinery—a move which leaves

U.S. producers with only 300,000 tons/year of operative capacity. The situation in Europe, meantime, also points to continuing glut—as consumption (about one million metric tons per year) lags productivity (about 1.2 million tons) and capacity (about 1.6 million tons).

Copper

Still no sign of the red metal breaking out of the upper-60s to low-70s price range. One key problem:

Plastics

Plastics growth in key end-use markets (1981-86)

Average annual percent increase 4 6 8 10 12

Electrical-electronic

Building-construction

Transportation

Consumer-institutional

Furniture-furnishings

Packaging

Growth is still the name of the game for the huge, \$50-billion plastics industry.

That's the basic message of a new Charles H. Kline report, which indicates advances for basic structural uses averaging near 7% a year through 1986. While that is only half the rate of the 1960s and early 1970s, it suggests modest acceleration from recent pre-recession performance.

Kline, a New Jersey research firm, sees the heftiest gains in electrical and electronic applications. By 1986, for example, this one sector should be chewing up 4.6 billion lb—the equivalent of an 11% annual rate of gain (see chart).

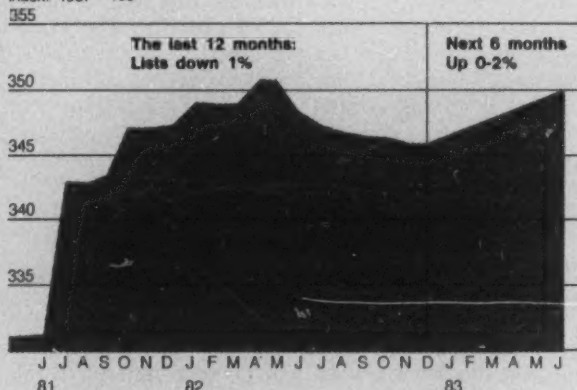
Other key projections: (1) The biggest volume markets will continue to be packaging and construction; (2) LLDPE will increasingly eat into LDPE's traditional markets; and (3) cost-cutting pressures will dictate the use of more and more filler material.

PW PREDICTS

Steel

Steel mill products

Index: 1967 = 100



CURRENT SITUATION: The fourth quarter doesn't look to be any more robust than the third, with production and orders lagging far under projections made earlier in the year. In any case, shipments over the period won't exceed 16-17 million tons. Not surprisingly, prices continue to sag, with discounts ranging all over the lot, depending on product and geographic area. Much of this is traceable to imports.

DEMAND: It now looks like only a 65-million-ton shipment year—some 22 million under 1981 and the worst performance in over two decades. Nor is there any sign of any big 1983 bounceback. Given the lackluster car, machinery, and construction outlooks, it's hard to see shipments rising much, if anything, above 75 million tons.

SUPPLY: Demand projections virtually guarantee another year of more-than-ample supply and relatively short leadtimes. In fact, domestic producers should be hard put to raise operating rates even into the 60% range. Imports will also continue to come in at a fairly substantial clip—though any further gains should be limited by (1) the recent European pact holding their shipments to 5.4% of the U.S. market, (2) chances of a similar agreement with Japan, and (3) pending trade complaints against other foreign producers.

PRICE OUTLOOK: Current hefty discounts are likely to spill over into early 1983. Beyond that, some firming is inevitable as demand begins to improve and producers move to get their operations back into the black. But any rise will be slow and gradual, with not much more than 5% added onto transaction prices by midyear. As for any appreciable rise in book quotations, that's still a long ways off. Indeed, it may not be until late summer or fall before market levels are close enough to lists to permit advances in the latter.

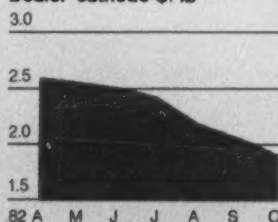
Continued all out production by Third World countries where output may actually be up a bit this year. Then, too, there's the failure of CIPEC to develop any viable price-supporting scheme. About the only relatively positive sign is inventories—with global stocks put at only 1.1 million tons—well under the near-2-million peak of late 1977. But this alone can't turn the price tide. True, quotes may inch up towards the 80¢/lb mark by next spring as consumption slowly picks up. But that still won't put the industry in the black. The latter would require a 90¢/lb-plus price—and that still looks to be another 12-15 months away.

Nickel

Prices have crumbled. Producer transaction tags, for example, have dropped to near \$2/lb—not even within shooting distance of the official \$3.20/lb list. Dealer quotes are even lower. Look for bargain-basement tags to continue until stainless and other markets start to show some signs of improvement. But even over the longer pull, the outlook can hardly be dubbed bullish—with demand gains put at only 2% annually—down sharply from the 6% figure of pre-OPEC days. Adding to the easiness is overcapacity—

Nickel

Dealer cathode \$/lb



as demand next year is put at only one billion pounds (far under the estimated 1.75-billion-lb Free World potential). Conclusion: Operating rates in 1983 will remain under 60%—hardly the climate for any meaningful price recovery.

Lead

Barring an excessively cold winter (which would stimulate demand from battery makers), the heavy metal looks to remain quite weak. Some of the negative factors: (1) still-declining consumption of lead in gasoline, (2) the continuing down-sizing of batteries, (3) rising global stocks, and (4) excess mine capacity. And there's more production coming on stream—some 200,000 metric tons per year in the 1982-83 period. All this at a time when consumption has actually declined. And while a 2-3% demand increase is possible for next year, the really longterm prognosis is a lot less bullish—with only 1% annual gains anticipated. Upshot: It will take six months or longer to bring tags up into the still relatively low 30¢/lb range.

Aluminum

Bearishness is still the order of the day—as Free World stocks remain above the 3-million-metric-ton level and U.S. production and shipments drop 25% under 1981 levels. Other signs of easiness: (1) the less than 50¢/lb market price for ingot, (2) quintuple discounts on common alloy products, (3) rising imports of mill products, and (4) continuing declines in operating rates—

with U.S. producers now down near the 58% level. And there's talk that some of the shut-down capacity may never come back. Sure, prices will have to advance—if only to recoup rising costs. But nearterm boosts will be small—with little likelihood of anything more than 2-3¢/lb hikes over each of the next few quarters.

Paper and products

Markets remain soft—particularly for newsprint and corrugated. In the latter sector, demand for boxes continues to disappoint—with year-to-date shipments lagging more than 5% under 1981 levels. Not only is this keeping prices shaky, but it's also helping to maintain \$20-30/ton discounts on kraft linerboard. On the newsprint front, meantime, new reductions in list have dropped prices to \$425/short ton—some 6.3% under previous levels and more in line with actual transaction quotes. But some new price-boosting move can be expected by mid-1983.

Polypropylene

Further price erosion for this key volume plastic can't be ruled out—on a combination of falling propylene raw material costs and low operating rates. As such, the key homopolymer grade could be going for under 35¢/lb over the next few months. But some fair-sized price recovery is possible for 1983 as demand slowly picks up and production capacity remains unchanged at the current 5,390-billion-lb

level. Best bet for prices: a rise into the 40¢/lb range by late next year—with another 2¢/lb added on the average quote during the following year when operating rates start moving above the 80% level.

Computers

Competition in the small-computer sector is still intensifying. The latest bit of evidence on this score: IBM's price reductions for most of its smaller systems and related equipment. Some typical cuts: 18-34% on the firm's 4300 line, 12-24% on Datamaster, 10-25% on System/38, up to 27% on the 8100 and up to 26% on the 5280 distributed data system. Lower purchase prices have also been posted on selected peripheral equipment (including printers, disks, and tape units) for small systems.

Pipe

Discounts are all over the lot. Buyers of oil country tubulars, for example, report price breaks ranging upwards of 50%. Line pipe isn't all that strong either—with prices in this sector running some 20-25% under early 1982 levels. But look for some stabilizing or even modest price recovery in this latter area by next summer when top-heavy inventories are worked off. The prices of tubulars, however, should continue to remain quite soft.

Titanium

Further price declines are reported in the mill production area—with little mar-

Chemicals

CURRENT SITUATION: The recession is taking its toll—dropping real volume for the year as a whole some 0-2% under 1981 levels. Competitive infighting, meantime, is keeping a lid on prices, with lists virtually unchanged from a year ago. Moreover, add in current discounting—particularly in the plastics and petrochemical areas—and overall market averages are probably off by a few percentage points.

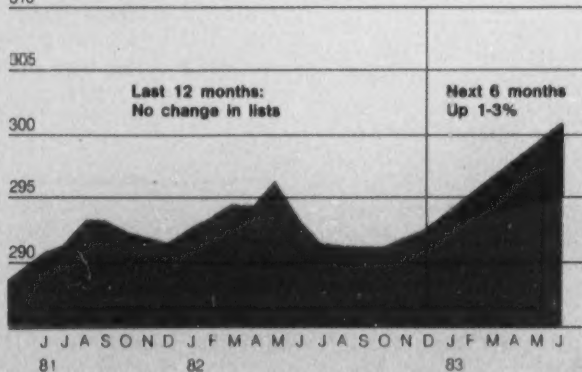
DEMAND: The upcoming year looks somewhat better. Assume a relatively modest 1-2% real GNP advance, and sales could be up 3-4%. Biggest gains should be in plastics, although somewhat larger-than-average advances are likely for basic organic and inorganic chemicals, too. The longrun prognosis is also fairly bullish, with commodity chemicals expected to average about 1-2 percentage points above the overall GNP growth level.

SUPPLY: Operating rates tell the story. The industry is now averaging only about 70% of its potential, with basic feedstocks in the even-lower mid-60s. Nor is any appreciable tightening anticipated as capacity continues to slowly increase. Thus, these projected operating rates: plastics, 66-69%; organic chemicals, 65-68%; inorganic chemicals, 70-73%; and synthetic fibers, 78-81%.

PRICE OUTLOOK: Improving 1983 demand and mounting cost pressures dictate some modest hikes by early 1983—despite still-more-than-ample capacity. True, not all of this price-boosting attempts will hold up in a basically competitive marketplace. But plan on paying about 1-3% more, overall, by mid-1983, with the uptrend perhaps accelerating a bit towards yearend. Upshot: Average 1983 quotes could run some 3-5% above 1982 levels.

Chemicals

Index: 1967 = 100
310



PW PREDICTS

ket recovery seen before the second half of next year, when defense-related demand is expected to improve. But gains even then will be relatively moderate, with the 51-million-pound consumption peak hit back in 1980 not expected to be reattained until 1985. But capacity should be up substantially by then, too—so the metal will remain in more-than-ample supply through the foreseeable future.

Steel plate

Good buys are available on imported high-strength low-alloy (HSLA) plate. Some incoming shipments, for example, can be had for 30-34% under domestic producer list base levels. Lowest quotes are showing up in the Southwest where material has been going for as low as \$12-16/cwt. Also Swedish producers in the East are said to be offering HSLA for as low as \$16/cwt. One result: These bargain-basement prices are bringing down domestic transaction quotes in some areas of the nation to as low as \$19-21/cwt.

Fasteners

China is stepping up attempts to increase its sales of standard steel flat washers—and already has captured 6½% of the entire U.S. market. Prices are extremely low—averaging out in the 23-24¢/lb range—far under comparable 34-42¢/lb domestic producer levels. Lower-than-U.S. tags (though not nearly as low as the Chinese) are also noted for Korean offerings. The in-

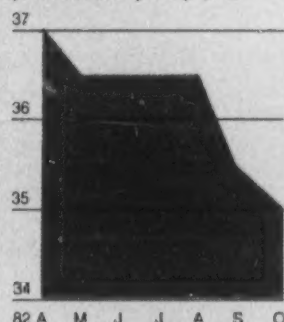
evitable result: Imports now account for over 18% of all U.S. chewup.

High-density polypropylene

Market prices could be vulnerable to another 2-3¢/lb decline over the next few months—bringing the key blow-molding grade to as low as 32¢/lb. Behind the easiness: Aggressive producer marketing, spurred by sagging operating rates, which have dropped into the low-to-mid-70s range. But some price turnaround is likely by next spring if, as expected, ethylene (the key raw material) continues to move up. But even then any gains will be tempered

High-density polyethylene

(Transaction price) ¢/lb



by excess capacity—as another 300 million lb is added onto industry potential—with an even bigger 500 million lb coming on stream in 1984. All this should keep operating rates mired in the 75% range.

ABS plastics

A slow demand pickup will limit any overall price increase above the current 80¢/lb average of all grades. One producer,

Energy

Fuel and power tags into 1983

Percent increase 4Q 1982 to 4Q 1983 3 6 9 12 15

Gasoline

No. 2 heating oil, wholesale

No. 2 heating oil, retail

No. 6 residual fuel oil

Jet fuel

Coal delivered to utilities

Residential natural gas

Natural gas delivered to utilities

Residential electricity

Department of Energy analysts forecast relatively modest price hikes for all fuel and power sectors—except natural gas, where gradual decontrol will continue to make for double-digit increases.

The projections are based on the assumption that crude oil tags will rise no faster than the general inflation rate over the next 12 months. If this is right, all sectors (again, except natural gas) will rise at an 8%-or-less rate over the year ending the fourth quarter of 1983. The average price of gasoline in late 1983, for example, will be only \$1.35/gal.

Price moderation is also suggested as far out as 1990.

however, feels an 8% boost next year may still be possible. But keeping a lid on increases will be low operating rates, which recently dropped into the low 60% range. The longrun growth rate, meantime, has been pared down—from 8-10% previously to only about 5%—because of slower overall GNP growth and increasing competition from PVC in the pipe sector. But some demand stepup—perhaps as much as 15% a year—is expected in the burgeoning business machine and consumer electronics markets.

Phthalic anhydride

The market is slumping, with flake material available for as little as 34¢/lb and molten phthalic for as low as 31¢/lb in large quantities. Behind the easiness: Poor demand and recent price declines in the chemical's ortho-xylene feedstock. But some price turnaround is anticipated by next spring—as the effects of recent plant shut-downs are felt and demand from PVC (the chemical's major end-user) begins to slowly improve. **PW**

Buying from China

Despite problems, many U.S. companies are finding new sources of supply in the People's Republic of China. The potential is tremendous, and the drawbacks are being overcome.

There are a heck of a lot of good buying opportunities in China these days. Moreover, current purchasing volume could look like peanuts in a few years if today's rosy trade forecasts prove anywhere near correct.

But there's some bad news to go with the good. Specifically, if you're thinking of jumping into the market—using time-tested U.S. procurement procedures—then forget it.

The Chinese way of doing business can be frustrating. But even more important, any purchase will more often than not be part of a counter-trade deal—a fancy term for a barter agreement.

Such pacts, of course, mean that your marketing people also have to get into the act. The preferred way to deal with these situations is generally through a company trading arm or subsidiary—one that can coordinate what your firm wants to sell with what it can buy and use.

This, in turn, implies a substantially different role for purchasing. You can't usually go it alone bargaining in and taking over when a good deal is spotted. In most cases, the PM has to take his cue from the trading arm which is concerned with many more variables than just a purchase price or delivery terms.

Another common problem: Many of the items eventually purchased may not be suitable for inhouse use. But, they may well have to be purchased if your company's own products are to be sold. This, in turn, raises another complication—namely the disposal of the unneeded product to a third party—hopefully at a profit, or without incurring any loss.

Two-way trade

The Motors Trading Corporation (A General Motors subsidiary set up in 1979) provides a good example of how this two-way trade works. Cur-

rently, MTC is selling the Chinese large diesel engines from its Allison division—but only because it is willing to take in exchange a diverse mix of Chinese items. Unfortunately, GM can't always use these purchased products, so in many cases they then have to be sold to other organizations.

But this is not stopping GM—for the firm feels the engine sales are not only lucrative in their own right but offer good longterm potential for penetrating what may eventually be a giant market. As such, GM (or more specifically its MTC subsidiary) is willing to take in exchange such diverse items as agricultural products, minerals, tools, and textiles.

True, this may not be the ideal way to move your own firm's goods.

On the other hand, GM feels it is now a necessary approach if it is to compete in today's essentially global economy.

Even at this early stage, such convoluted arrangements (as typified by the GM action) seem to be working—to the extent that China has become our 14th largest trading partner. Last year, for example, incoming shipments from the People's Republic of China (PRC) rose an eye-opening 79%. And compared to two years ago, the latest (1981) figure has been more than tripled (see chart).

A better mix

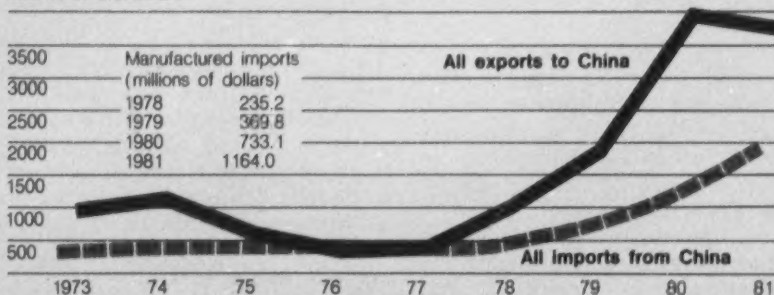
To be sure, the imported items are heavily weighted with textiles and apparel. But there has also been an increase in the amount of industrial-

HOW IMPORTS FROM CHINA ARE CHANGING

Product group	Annual imports (millions of dollars)		
	1980	1981	% change
Clothing & accessories	249.9	416.0	66
Textile yarns & fabrics	143.6	248.0	73
Petroleum products	134.7	293.5	118
Chemicals	51.7	61.0	18
Nonferrous ores	33.5	44.6	33
Nonferrous metals	46.1	43.7	-5
Footwear	20.0	35.6	78
Arts & antiques	38.5	26.3	-32
Nonmetallic minerals	25.2	33.6	33
Textile fibers	14.6	22.6	55
Glassware, pottery	14.6	24.9	71
ALL MANUFACTURED GOODS	733.1	1164.0	59

Sharp rise in U.S.-China trade

Millions of U.S. dollars



Source: U.S. Dept. of Commerce

type goods coming in—nonferrous ores, nonferrous metals, petroleum products, and even some machinery.

On the nonferrous front, for example, several domestic steel mills are said to be seriously considering additional purchases of tin, fluorspar, ferrochrome, and medium carbon chrome. And the Chinese are now also offering significant quantities of titanium and ferrosilicon.

There are also good opportunities in some more highly fabricated items. For example, McDonnell Douglas—in order to get a solid toe-hold in the Chinese market—has contracted with the Shanghai Aircraft factory to produce 100 sets of main landing gear doors for its Super 80 jet. The contract is valued at somewhat over \$1 million. The quality “looks very good,” they report, and the doors are already being installed.

But here, too, there's the other side of the deal. The PRC is looking for an upgrading of its air transportation—and McDonnell Douglas hopes to play a major role in this effort. Worth noting in this respect: In order to enhance its position even further, the company has been talking to the Chinese about production in other areas—“and we will continue to talk,” a spokesman says.

These examples are symptomatic of what's going on in China these days. And they suggest that even bigger trade gains lie ahead. Certainly, early 1982 experience—which shows imports running at near double the comparable year-earlier levels—would seem to indicate as much.

Government trade officials also agree—with one spokesman putting this year's imports from the PRC in the \$2½-3 billion range (versus only \$1.9 billion last year). And for the mid-1980s, this same official sees incoming Chinese shipments rising to \$5 billion or more.

The knowledgeable National Council for U.S.-China Trade agrees—and just the other month pegged 1982 incoming shipments from China at \$2.7 billion.

The PM's role

Given this rapidly growing import trend, just where do U.S. purchasing executives fit in? Patrick Hanafee, the executive director of MTC de-

scribes how his subsidiary cooperates with PMs at General Motors. “I’m working with one division now that has already given the Chinese blueprints for some parts. That negotiation is done under the terms of our countertrade agreement.

“I help the PM find his way into China, find the people for him to talk to, and arrange for translators. But it's always the division's decision on what it's going to pay, and whether it's actually going to buy,” Hanafee explains.

“MTC has a role of what we call ‘supplier development,’ where we will identify potential sources. And

in that role we have actually run across potential sources for a specific product that we know a particular division is trying to cut costs on.

“So what we'll try to do is identify the supplier, the plant, shipping, prices, that sort of thing,” he says. “We may take blueprints over. And if it still looks good, then the interested purchasing people get more actively involved. Moreover, if purchasing agrees that this is a good source, we tend to ease off a little and let them negotiate directly.”

Hanafee cautions that all of the red tape isn't on the side of the Reds. He advises that blueprints, even of

Nitty-gritty of the China trade experience

Here's a sample of what purchasing managers and company trade experts are saying about the ability of the People's Republic of China to provide quality products, competitive pricing, and prompt delivery.

Quality

■ “What you worry about is constant quality on stuff received. On arts and crafts, it's not as critical as it is on products or parts and components. They aren't with the state-of-the-art yet on technical, sophisticated components. They still are where the Japanese were before 1959, until the Japanese recognized they had to go out and buy technology.”

■ “The quality is generally pretty good on subcontract work. But because of the government's involvement, it's very often difficult to work with the factory managers.”

■ “You're really working with bureaucrats. But in the last year or so, that has gotten better with the advent of decentralization.”

■ “The quality is good on the items we're buying from China.”

Price

■ “The Chinese don't understand pricing, as we know it. So there's a lot of negotiating.”

■ “I think they place an undue reliance on price. They always say, don't worry you'll get it cheap. And in most cases they aren't cheap, because they don't know how to price.”

■ “One thousand can mean the same as 50,000 of something. They don't recognize the importance of the quantity purchase. And I think the reason for that is they are so limited in mechanization and automation.”

■ “Prices are attractive. And they can be negotiated. In China, nobody has the concept of cost. But they are competitive.”

Delivery

■ “Be prepared for problems. You might deal with a plant, for example, that can produce the part, and it still doesn't get here. Some of the factories are very sophisticated. Others aren't.”

■ “They don't pay much attention to delivery schedules. That, again, is part of the problem of not understanding the business mentality in the United States. They don't understand commercial considerations.”

■ “Overall, delivery schedules are good.”

■ “We're very sensitive to schedules. So we dual source everything we put in China. What we're trying to do is build up a relationship but not put all of our eggs in one basket.”

mundane products, have to be cleared by the Department of Commerce. And that takes time.

Control Data has also been endeavoring to buy for inhouse use, "But so far we haven't got very far," confesses Jackson Hipps, director of marketing of the firm's Commerce International subsidiary. He says that his outfit identifies and contracts to dispose of most of the purchased merchandise—and, as such, seldom takes possession of the inventory.

Hipps adds, "You really do that to sell your primary product. And to satisfy the developing nations who are saying that if you want to sell us something you have to show us some indication of buying something."

But he admits: "The countertrade aspect of trading, shall we say, is a difficult way of doing business. And except in very rare cases—at least for us, it is not very profitable. Still, we hope we will have a longterm, meaningful, and mutually advantageous relation with China—both for the selling of our equipment and the marketing of their goods."

An education process

Other, more critical comments come from Nick Di Orio, recently retired director of corporate contracts and international procurement at RCA. "The PRC doesn't know how to approach American PMs yet. They have products and they have samples. But they don't realize that first you have to determine if you can satisfy the customer's specifications."

The purchasing veteran shares this recent experience: "I met with a couple of people from Shanghai. They showed me some items and said, 'We look forward to your order.'"

"I said you do not mean order you mean request for quote. They said, 'What?' Then I explained what that meant—including a step-by-step litany of what they have to learn to do."

To emphasize the problem, Di Orio describes an experience RCA had some years back when it owned a frozen food company. "They used to market water chestnuts and bamboo shoots—and where could we get better quality than from China? But we required 50-lb drums. They said they only packed in 1-lb cans."

Although RCA is currently

Making an informed start

Even promoters of Chinese trade recognize that problems still exist. One spokesman, for example, admits that "some product information is still difficult to obtain; direct communication is still often poor; there is still some resistance to product change; and delivery delays can still be a problem." But he points out that the companies he represents, as well as many others, are now committed to understanding and supplying the needs of the American market. The Chinese, he says, "realize that increased trade with the United States is vital."

Two sources of information for those who would like to learn more are:
■ National Council for U.S.-China Trade, Washington, D.C. (contact Nick Ludlow, 202-828-8300). This is a nonprofit organization that promotes trade with the People's Republic of China. It publishes the "China Business Manual" (\$11.95, 336 pages) containing some 5000 names, addresses, and phone numbers of businesses in China.

■ Tianjin Foreign Trade Corp., 236 W. 18th St., New York, N.Y. 10011 (contact John R. Hill, 212-741-3400). This firm governs and promotes import/export trade for businesses in the city of Tianjin in the People's Republic of China.

buying very little (mostly foodstuffs, components, and chemicals), Di Orio feels that you have to keep the door open. So the company keeps looking at things.

While he finds the Chinese fairly knowledgeable in raw materials and chemicals ("sodium nitrate is sodium nitrate," he points out), even there he sees a reluctance to quote the way the customer wants.

Beyond the frustrations

In any event, frustration is one of the recurring themes that run through *PW* interviews. And patience is described not only as a virtue but a necessity. For instance, J. Nagib, trade projects manager for General Electric, stresses that if you are patient you can achieve your purpose. "They come back with a lot of questions. But after they understand what you need, they are performers."

Unlike other industrial purchasing people, Nagib emphasizes that GE has a fruitful relationship with the PRC. He reports that: "GE is now purchasing a mix of products. And we are considering widening our spread because it makes good business sense."

If that sounds encouraging, then you would think that Hallmark, which is in China primarily for high hand-labor-content items would have smooth sailing. "Not so," says Al Sondern, Hallmark vice president:

"At this point, the only reason I stayed with it is that I think in the long run you cannot possibly ignore 900 million people."

"Right now we could do just as well—because of the problems involved—in other places. But I feel you have to keep up the relationship and keep working with them. And in the long run I think the economics make a lot of sense."

Sondern is buying hand-labor to manufacture his company's specifically designed goods such as plastic Christmas Tree ornaments. And as Japan, Hong Kong, and Taiwan discourage this kind of activity in favor of high-tech, he believes that the PRC will become more important to his firm.

If some of these comments by purchasing and trading executives sound pessimistic, they aren't meant to be so. They're attempting to provide a true picture of the present.

Di Orio sums up their feelings: "You have to take a longterm outlook, looking for the little things you can buy as you go along."

All these men hope that no monkey wrenches will be tossed into what they see becoming an increasingly valuable source of U.S. supplies. Their major concern right now—aside from the difficulties of doing business—is the escalation of rhetoric between the U.S. and China over Taiwan. They're keeping their fingers crossed. *PW*

Longterm energy outlook shows moderate price increases

Good news for energy consumers over the next 5-10 years: All signs point to continuing price restraint.

That's not to say, of course, that quotes won't go up. They will. But advances for the most part will be surprisingly modest—except for natural gas where current decontrol will be making for some pretty hefty hikes over the next few years.

At least that's how Department of Energy analysts see the price pattern developing. To be sure, they make

certain basic assumptions—namely, (1) no new global oil supply disruption and (2) relatively modest real GNP gains (something in the order of 2.7-3.0% a year through 1990). But if you accept these assumptions, then the price picture can only be described as encouraging to purchasing execs.

This is true particularly for crude oil, where quotes are targeted to increase at less than the general inflation rate. The implication here: In constant 1981 dollars, the 1985 projected price of \$32.50/barrel will actually be lower than current levels

(see first line of the accompanying price table).

Indeed, even if you add, say, a 5% annual general inflation rate onto the above figure, the delivered or "current dollar" price at that time isn't likely to be much, if anything, above \$40/barrel.

Key price trends

Here are some of the other specific price observations that are contained in the just-released government report:

■ Price rates on refined petroleum products (such as gasoline, heating oil, etc.) are expected to generally mirror the overall crude oil price trend.

■ Depending on the tightness of the market, natural gas prices, after decontrol in 1985, are expected to increase at a slightly slower pace than oil. Thus, while the price advantage of natural gas over home heating oil will continue to narrow over the next few years, it could well widen again after 1985.

■ Electricity rate hikes will show some variation over the next few years—with these constant dollar annual rates of increase projected over the 1981-85 period: residential (1%), commercial (2%), and industrial (2½%). Add a 5% general inflation rate onto the above, and actual utility bills should be up 6%, 7%, and 7½% a year, respectively, over this four-year span.

■ Electricity, despite the projected relatively low rates of advance, will likely remain the highest priced residential fuel—not only over the next few years but also for the next few decades.

■ Coal will not be greatly affected by the price increase in other fuels. It is considered to be so abundant that demand can easily be met. Therefore, prices are expected to remain relatively stable, growing at a less-than-2% rate in constant dollar terms. **PW**

A Long Look Ahead at U.S. Energy Trends

	Prices (in constant U.S. dollars)			
	1980	1981	1985	1990
WORLD OIL PRICE (1981 \$/barrel)	37.00	37.00	32.50	42.50
RESOURCE PRICES				
Refiner crude oil (\$/bbl)	30.66	35.64	32.50	42.50
Wellhead gas (\$/Mcf)	1.74	2.06	3.80	5.44
Minemouth coal (\$/ton)	28.02	27.92	31.48	33.89
DELIVERED PRICES				
Residential sector				
Distillate (\$/gallon)	1.07	1.21	1.09	1.37
Liquid gases (\$/gallon)	0.63	0.71	0.65	0.82
Natural gas (\$/Mcf)	4.31	4.56	6.29	7.79
Electricity (¢/Kwh)	5.85	6.20	6.46	7.00
Commercial sector				
Distillate (\$/gallon)	0.967	1.09	1.00	1.26
Residual (\$/barrel)	28.50	32.50	35.49	45.87
Liquid gases (\$/gallon)	0.61	0.69	0.63	0.81
Natural gas (\$/Mcf)	3.57	3.93	5.96	7.49
Electricity (¢/Kwh)	5.99	6.29	6.73	7.37
Industrial sector				
Distillate (\$/gallon)	0.94	1.07	0.98	1.23
Residual (\$/barrel)	28.50	32.50	34.43	44.40
Liquid gases (\$/gallon)	0.61	0.69	0.63	0.81
Natural gas (\$/Mcf)	2.67	3.02	4.95	6.50
Coal (\$/ton)	39.17	39.74	46.35	50.93
Electricity (¢/Kwh)	4.03	4.29	4.74	5.34
Transportation sector				
Gasoline (\$/gallon)	1.33	1.35	1.36	1.60
Distillate (\$/gallon)	0.95	1.06	1.10	1.40
Residual (\$/barrel)	28.50	32.50	34.43	44.40
Jet fuel (\$/gallon)	0.98	1.05	0.98	1.28

Short leadtimes to continue

Chalk up another month of virtually problem-free purchasing in the form of ample or more-than-ample supplies, fast deliveries, and continuing soft prices.

To be sure, leadtimes are no longer shrinking. But this is probably because they are about as low as they can go—plus the fact that vendors have been cutting back on their own inventories.

On the other hand, leadtimes are unlikely to show any appreciable rise—at least, not over the next 3-6 months—not with factory operating rates in most sectors down under 70%. The fact that the nation's manufacturers are now planning on an eye-opening 8% reduction in

real capital spending next year would seem to confirm this no-sweat situation.

Also symptomatic of today's pervading easiness:

- PMs continue to report delivery speedups. Last month, for example, 12% of a survey sample noted faster service—three times the number who reported slowdowns.
- Forward commitments are still shrinking. Specifically, only 12% of surveyed PMs are now committing 90 days or more in advance for production materials.
- Not one item is now listed in short supply. You have to go back to the severe recession of 1974-75 to match this happy situation. **PW**

Leadtimes and availability

Chicago: Somewhat longer waits are noted for softwood sheathing (1-2 weeks) and semiconductors (12-20). But both PVC resins and powders are a bit lower (½-1). Metal leads, meantime, are unchanged as follows: aluminum coil, sheet, bar, and plate (6-8), brass and copper sheet (5), or steel sheet (4-5).

Cleveland: Some modest improvement in both maintenance paint (to 1 week) and polyethylene and PVC resins (1-2). Little change elsewhere—with these weekly leads reported: steel canisters (6), reconditioned steel drums (1-2), corrugated (3), waterproof paper (5-6), alloying materials (on demand), skids (3), strapping (2-3).

Houston: Additional delays for heat exchangers (alloy/carbon steel) which are now out in the 6-10 month range. Reason: vendor production cutbacks. But steel is in a bit (to 4-8 weeks from mills and 1 from distributors). Packaging leads remain unchanged at 0-4. Ditto electronic parts (4-6) and MRO supplies (2-4).

Los Angeles: A few scattered stretchouts—with new leads in weeks as follows: plasticizers (1½), galvanized steel (4-5), copper fittings (3-4), insulation materials (4-6), rubber hose (5-7), custom seals and gaskets (5-7). Coming in are adhesives (1), aluminum sheet (6-7), heavy duty valves (26-39).

Philadelphia: A mixed picture here: in somewhat are lube oils (1 week or less). But going out are plastic stretch wrap (1), sodium sulfate (to 1 due to a drop in by-product rayon output), and computer paper (1-1½). Most other packaging is unchanged: corrugated (3-4), wooden pallets (½-2).

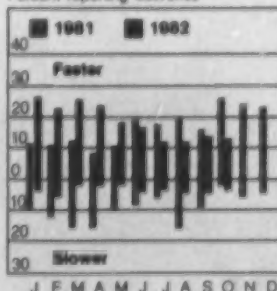
Pittsburgh: Little meaningful change—with these typical weekly leads: kraft paper bags (4-6), plastic bags (3-4), folding boxes (6-5), paper-ply drums (3-4), glassines and greaseproof papers (5-6), coated litho paper (8-12), lumber and plywood (2-4), stretch and shrink film (2-4), steel strapping (2-3), polyethylene and PVC (4).

Monthly procurement Status report

Source: TAPPM

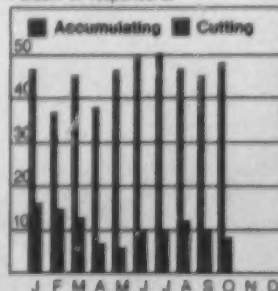
Delivery performance

Percent reporting deliveries



Inventory strategy

Percent of respondents



Leadtimes (in weeks)

Steel				Packaging				Non-Ferrous			
	Now	Month ago	Six months ago		Now	Month ago	Six months ago		Now	Month ago	Six months ago
Sheet (Phil)	5	5	£	Bags, Kraft (Pgh)	5	5	5	Aluminum Coil (Chgo)	4	4	4
C-R Sheet (Chgo)	4½	4½	4½	Bags, Multwall (Clev)	9	9	9	Aluminum Plate (Chgo)	7	7	7
Plate (Phil)	4½	4½	4½	Bags, Multwall (Pgh)	11	11	11	Aluminum Sheet (LA)	6½	7	12
Plate (Chgo)	2	2	2	Cartons, Corrugated (Clev)	3	3	3	Aluminum Sheet (Chgo)	8	8	8
Reinforced (Hous)	6	6	6	Cartons, Corrugated (Hous)	3	3	3	Brass Castings (LA)	7	7	7
H-R Bars (Phil)	5	5	6½	Cartons, Folding (Phil)	6½	6½	6½	Brass Rods (Chgo)	2½	2½	2½
H-R Bars (Chgo)	2	2	2	Cartons, Folding (Pgh)	7	7	7	Brass Sheet (Chgo)	5	5	5
Cold-Drawn Bars (Phil)	6	6	12	Cellophane Wrap (Phil)	5	5	5	Brass Tube (Chgo)	9	9	9
Galvanized (LA)	4½	3½	7	Plastic Bags (Pgh)	3½	3½	3½	Copper Fittings (LA)	3½	3	6
Galvanized (Chgo)	4½	4½	4½	Plastic Pkg. (Pgh)	3	3	3	Copper Mill Prod. (Pgh)	6	6	6
Structurals (Chgo)	2	2	2	Shrink Film (Chgo)	5	5	6	Copper Tube (LA)	3½	3½	6
Structurals (Hous)	17	17	17	Shrink Film (Clev)	3	3	3	Copper Tube (Phil)	6	6	6
Tubing (Phil)	19	19	19	Drums, Fiber (Pgh)	3½	3½	3½	Lead (Pgh)	2	2	3
Grey Iron Castings (LA)	7	7	5	Drums, Steel, Std. (Pgh)	2½	2½	2½	Magnesium (Pgh)	2	2	2
Steel Castings (Hous)	11½	11½	11½	Wood Pallets (Chgo)	2½	2½	2½	Manganese (Clev)	1	1	1
Forgings (Hous)	7	7	7	Wirebound Boxes (Pgh)	6½	6½	6½	Nickel (Clev)	1	1	1
Pipe, Carbon (Hous)	26	26	17	Strapping (Clev)	2½	2½	2½	Nickel (Pgh)	2	2	2
				Strapping (Pgh)	3	3	3	Silicon (Clev)	1	1	1

Electric & Electronic

Electric & Electronic

Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	13	13	13
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	9	9	7
ICs (Linear) (Phil)	12	12	16
Motors (Phil)	21	21	21
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	7	7	13
Relays (Chgo)	15	15	15
Resistors (Chgo)	10	10	12
Resistors, Wirebound (Phil)	10	10	18
Transformers (Chgo)	10	10	10

Lumber

Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Ogo)	2	2	2½
Plywood (Phl)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phl)	1/5	1/5	1/5
Softwood (Pgh)	3	3	3
Particleboard (Phl)	2½	2½	2½

Chemicals-Plastics

Adhesives (LA)	1	1½	1½
Naphthalene (Chgo)	2	2	2
Paint (LA)	3½	3½	4
Paint, Coil Coating (Pgh)	3	3	3
Paint, Maint. (Clev)	1	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Clev)	1½	2	2
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	½	1	1
PVC Resin (Pgh)	4	4	4
Titanium Dioxide (LA)	1	1	1½

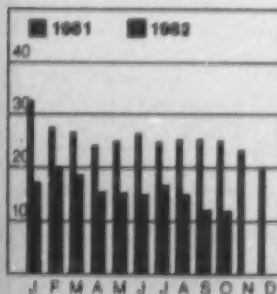
Paper

Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFHS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½

Miscellaneous

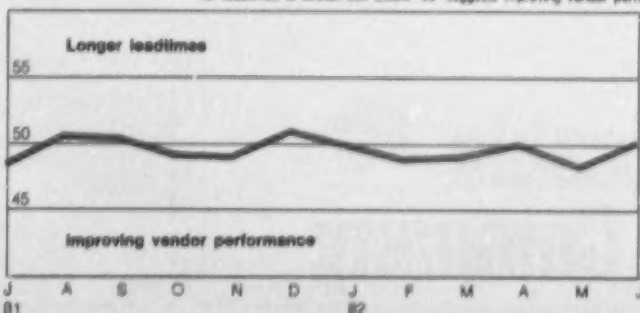
Bearings, Domestic (Phil)	22	22	22
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	52
Compressors, Centrifugal (Hous)	56	56	60
Compressors, Reciproc. (Hous)	45	45	45
Fasteners (Chgo)	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$
Fasteners (LA)	$9\frac{1}{2}$	10	$3\frac{1}{2}$
Fasteners, Std. (Phil)	$3\frac{1}{2}$	$3\frac{1}{2}$	$3\frac{1}{2}$
Heat Exchangers, Carbon-alloy Steel (Hous)	30	32	37
Heat Exchangers, Hi-pressure (Hous)	43	43	46
Insulation Mat'l. (LA)	5	4	5
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1	1	
Pumps (Hous)	41	41	41
Pumps (LA)	10	10	9
Rubber, Synthetic (LA)	$1\frac{1}{2}$	$1\frac{1}{2}$	1
Rubber Hose (LA)	6	5	7
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	13	13	13
Welding Supplies (Hous)	5	5	5

Forward commitments



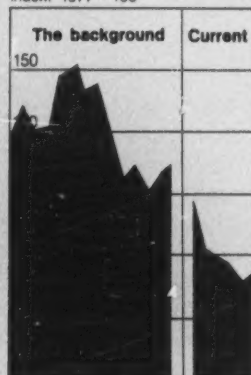
Leadtime index

A 'diffusion' index based on 158 key commodities. Above '50' indicates a tendency for leadtimes to stretch out. Below '50' suggests improving vendor performance.



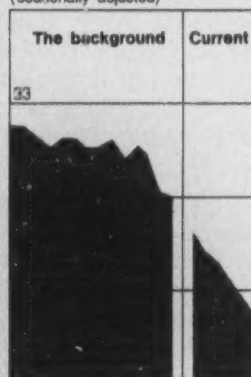
Leading indicators

1. Industrial distributor sales Index: 1977 = 100



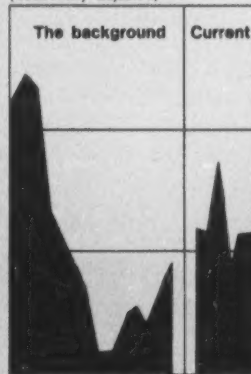
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81 82

2. Purchased material durable inventories Billions of 1972 dollars (seasonally adjusted)



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81 82

3. Housing permits Millions of units (seasonally adjusted)



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81 82

Few signs of any real upturn for first quarter business

The long-awaited upturn is still several months away, despite all the brave talk from Washington these days.

True, things are not likely to get any worse. But there are still precious few signs that the first quarter 1983 will show any significant improvement. For example, the NAPM business barometer, a time-tested indicator of economic activity a few months down the pike, is still mired in the upper 30s range—far under the 50 level that traditionally has signalled better days ahead.

In addition, NAPM's leadtime index, an indicator of whether waits for goods on order are shortening or lengthening, remains right at the 50 mark—meaning no change. Normally, leadtimes begin to stretch if there is a business uptick in the works as production picks up to meet increasing demand.

One thing for sure, early 1983 will not have the benefit of any capital

spending fillip. A just-released plant and equipment survey, for example, finds that real outlays could be off as much as 8% for the year just ahead. And there's little reason to question this figure in view of today's 70%-and-lower factory operating rates.

Foreign trade could be another nearterm drag. The strong dollar has tended to increase imports and decrease exports—trends which are knocking billions of dollars off U.S. manufacturers' order books.

On the other hand, there are some faint signs of recovery in other sectors. Industrial distributor sales, for instance, seem to have bottomed out (top chart), indicating that factory managers are at least beginning to think in terms of increased activity sometime in the not-to-distant future.

Inventories would have to be regarded as another positive sign. To be sure, current low levels (center chart) do not, in themselves, signal a recovery.

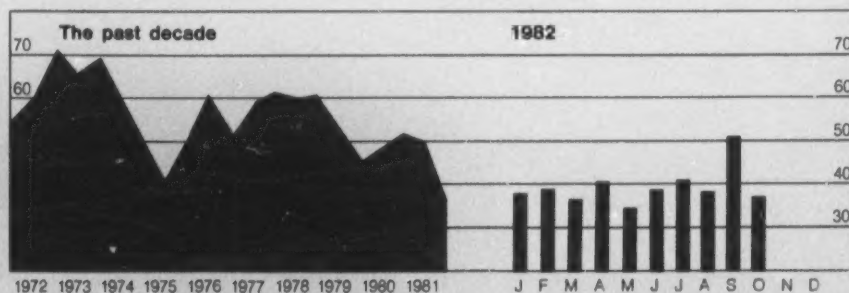
But they do seem to suggest that when orders start perking up, they will quickly be translated into new production. In addition, some inventory accumulation to fill currently depleted pipelines may well be needed by about mid-1983.

And last, but not least, there's housing. A modest decline in mortgage rates has already been translated into an uptick in building permits—a lead indicator of housing starts (bottom chart). True, there is still no sign of a bounceback to the levels of a few years back. But if starts reach 1.3 million in 1983 (versus only 1.0 million this year), it would at least be a step in the right direction.

In the last analysis, recovery will depend on interest rates. If borrowing costs don't bounce up again (and most economists are betting they won't), then a modest GNP advance is possible by next spring when annual rates of gain in the 2-3% range are possible. **PW**

NAPM business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Widespread price discounts are still order of the day

The year is ending on a deflationary note, with discounting and other forms of price shading still pretty much the order of the day.

Indeed, if you take all these unofficial reductions into account, actual trans-

action prices are probably running under levels of 6-12 months ago for many buyers. This conclusion seems to be confirmed by a *PurchasingWorld* survey revealing that 25% of the respondents have managed

to lower their overall procurement bills over the past year.

Moreover, the softness seems to be pretty much across the board, and not just limited to traditional demand-sensitive raw materials such as steel, non-ferrous metals, and plastic resins. Computers, for example, have turned a lot easier. The same is true of machine tools and many component parts. Ditto electronics, which are again beginning to slip after some midyear firming.

Over half the prices listed are unchanged or lower than the previous month's quotes. And only a couple are up by a percentage point or more. Even those items with big increases over year-ago levels have slowed down.

One seasonal trend worth noting: the lack of any significant number of beginning-of-the-year price boosting attempts. These are normally announced by December 1. But this time around, you can count the number of such projected hikes on your fingers.

To be sure, there has been some bottoming out in a few organic chemicals. And the slide in building materials seems about over as the mortgage rate declines breathe a bit of life into the ailing construction industry. But these are few and far between, not nearly enough to suggest any meaningful first-quarter 1983 rise in producer price averages. **PW**

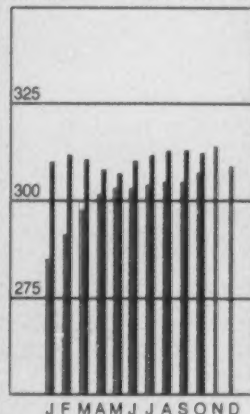
This month's breakdown

	Latest level (Sept.)	% change from: Month ago	Year ago
Bearings	335.3	0	5.4
Bolts, nuts, etc.	274.4	0.6	3.5
Chemicals, inorganic	314.8	0.2	5.4
Chemicals, organic	365.0	-0.3	-10.7
Concrete products	298.6	0.1	1.9
Cutting tools, small	276.4	0	3.7
Electrical instruments	257.6	-0.3	9.1
Electric lamps (bulbs)	289.9	1.6	4.7
Fans and blowers	336.1	0.5	2.3
Fittings, industrial	309.2	-0.3	1.6
Foundry and forge products	344.4	-0.3	3.1
Fuel oil (residual)	1120.7	-10.3	-6.0
Furniture, commercial	278.6	0.2	6.5
Gasoline	686.7	-1.2	-5.2
Glass, flat	221.1	-2.2	1.3
Glass containers	357.9	0.2	6.7
Gypsum products	253.9	0	0.4
Hand tools	342.3	0.1	5.7
Hand tools, power driven	221.7	0	3.5
Industrial furnaces	355.1	0.1	5.2
Integrating and measuring instruments	213.2	0	5.6
Internal combustion engines	334.4	0.9	6.9
Lubricating oil	888.1	0	0
Lumber millwork	279.5	-0.2	3.0
Material handling equipment	285.8	0	1.3
Metal containers	328.7	0	3.1
Metal mill shapes (nonferrous)	300.7	1.2	-2.1
Metal tanks	312.2	0.3	1.0
Motors and generators	315.2	0.4	3.4
Motor trucks	279.1	-2.1	9.0
Office and store equipment	152.5	0.1	2.3
Paperboard	250.7	-1.9	-4.2
Paper boxes and shipping containers	249.2	0	0
Paper office supplies	226.1	-0.2	3.2
Paint	265.1	0	5.7
Plastic resins	281.5	-0.3	-5.2
Precision measuring tools	239.9	0.3	6.5
Pumps and compressors	348.0	0.1	5.3
Refractories	341.3	0	11.1
Rubber belts and belting	325.5	1.0	10.5
Scales and balances	226.9	0	2.5
Steel products	346.7	-0.1	0.9
Switchgear	260.2	0	3.1
Textiles, synthetic fibers	163.4	0.2	1.5
Textiles, gray fabrics	143.5	0.7	-3.8
Tires and tubes	255.7	-0.9	-0.3
Transformers and power regulators	222.5	-0.9	4.2
Valves, industrial	329.4	0.1	2.1
Welding equipment	273.0	0	2.5
Wire and cable	200.5	-0.8	-3.7

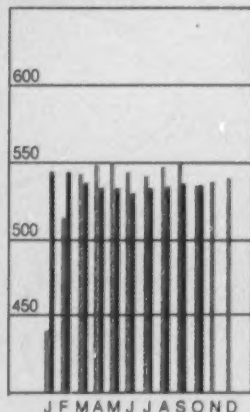
Industrial prices at a glance

■ 1981 ■ 1982

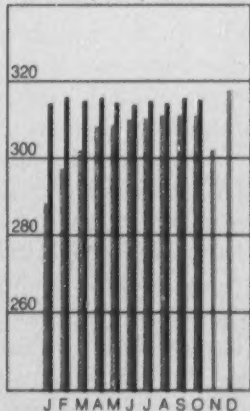
All Items Index: 1967 = 100



Raw materials



Semifabs, components



Source: Bureau of Labor Statistics

Latest spot market prices

Ferrous metals

	Latest price	Previous month	Year ago
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	347.00	347.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	22.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	22.90
Steel, structural shapes, Los Angeles, cwt.	24.40	24.40	22.15
Steel, bars, divd. Phila., cwt., merchant quality	14.35	14.35	14.35
Steel, bars, Pitts., cwt.	14.35	14.35	14.35
Steel, bars, C.R., Pitts., cwt.	31.00	31.00	29.20
Steel, plates, Chi., cwt.	24.25	24.25	23.25
Steel, plates, Pitts., cwt.	24.25	24.25	23.25
Steel, plates, H.R., Pitts., cwt.	20.80	20.80	20.80
Steel, sheets, C.R., Detroit, cwt.	24.65	24.65	24.65
Steel, strip, C.R., Chi., cwt.	29.05	29.05	29.05
Steel, basic wire, Pitts., cwt.	23.65	23.65	25.95

Nonferrous metals

Aluminum, ingot, lb. (market place)	0.45	0.45	0.49
Alum. sheet, H-14 3003, .04 in., 48x144, mill fin., lb.	1.02	1.02	1.02
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cast ingot, lb.	4.95	4.95	4.60
Brass, red, 85%, [sheet], lb.	1.19	1.15	1.23
Brass, yellow, [sheet], lb.	1.13	1.09	1.17
Cadmium, ion lots, lb.	1.00	1.00	1.60
Copper, electrolytic, wire bars, reld., lb.	0.72	0.68	0.80
Copper sheet, over 24 in., lb.	1.28	1.24	1.32
Lead, common, N.Y., lb.	0.23	0.25	0.36
Magnesium, pig ingot, [99.8%], lb.	1.34	1.34	1.34
Mercury, 20 fl. ozs, N.Y., lb.	378.00	370.00	424.00
Molybdenum Climax Oxide/bags, lb.	8.50	8.50	8.50
Nickel, electrolytic, producer, lb.	3.20	3.20	3.50
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	10.13	8.21	9.04
Tin, Straights, N.Y., lb.	6.20	6.23	7.90
Zinc, Prime West, East St. Louis, lb.	0.40	0.42	0.46
Zinc, die casting alloy, No. 3, lb.	0.475	0.455	0.528

Chemicals

Acrylonitrile, tanks, lb.	0.46	0.46	0.44
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.50	1.47	1.47
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	17.50
Cresylic acid [over 25%], tanks, lb.	0.66	0.66	0.66
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	0.101	0.101	0.101
Glycerine, synthetic, tanks, lb.	0.725	0.805	0.805
Linseed oil, raw, bulk, carlots, lb., f.o.b. N.Y.	0.295	0.295	0.345
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.715	0.715	0.715
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.31	0.33	0.42
Polyethylene resin, low density liner film grade (market price), lb.	0.25	0.25	0.26
Polypropylene, homopolymer grade (market price), lb.	0.36	0.36	0.36
Polystyrene, general purpose grade (market price) lb.	0.36	0.36	0.36
Resin, W.G. grade, carlots, f.o.b., N.Y., cwt.	46.50	46.50	46.50
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.335	0.350	0.375
Sulphur, crude, ex-terminal, Tampa, Fla. long-ton	135.00	135.00	147.50
Sulphuric acid, 86%, commercial, tanks, ton	56.85	93.69	93.69
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.45	1.45	1.48

Paper

	Latest price	Previous month	Year ago
Bond paper, No. 1 sulfate, water marked, 20-lb., 4 cartons, cwt.	68.60	68.60	68.60
Gummed sealing tape, carton	15.70	15.70	15.45
Offset paper, No. 1 Grade	49.70	49.70	45.50
Folding boxboard, white clay coated 80 bright, ton	389.40	396.20	411.67
Wrapping paper, std. distribution cost, kraft, basis wt. 50 lb., roll	28.00	28.00	21.00
Kraft linerboard, 42 lb., unbleached, ton	270.00	270.00	300.00

Building materials

Lumber, 2x4 fir, mbl, cl	292.50	296.10	318.11
Lumber 2x2, pine, mbl, cl	280.05	271.97	295.93
Plywood, plyform, 3/4", msl, cl	554.95	557.50	594.10
Plywood, 5/8", msl, cl	342.29	343.39	347.90
Cement, bulk, ton, t	62.07	62.07	61.23
Sand, ton, cl	5.88	5.98	6.02
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	45.50	45.88	45.10
Crushed stone, 1 1/2", ton, cl	7.77	7.75	7.61
Concrete blocks, sand/gravel, 8"x8"x16", ea., fl	0.76	0.75	0.69
Gypsum sheathing, 1/2"x1"x8", msl, fl	156.32	156.32	146.7
Brick, common, per thousand, fl	176.15	177.15	164.30
Asphalt paving, AC-20	156.77	156.27	168.10
Concrete sewer pipe, 12", prem. joint, per foot, cl	6.61	6.55	6.69

Textiles

Burley, 10 oz., 40", N.Y., yd.	0.262	0.257	0.244
Cotton drill, 1.85, 59", 66x49, N.Y., yd.	0.97	0.97	1.01
Cotton mulling, 1", N.Y., lb.	0.579	0.579	0.600
Printcloth, 48", 80x80, N.Y., spot, yd.	0.55	0.56	0.78
Army duck, 37", 13 oz., yd.	1.00	1.70	1.70
Blended printcloth, 64", 78x54, yd.	0.65	0.64	0.76
20s combed yarns	1.70	1.72	1.85
Wool tops, N.Y., lb.	3.60	3.60	3.60

Hides and rubber

Hides, cow, light native, packers, Chi., lb.	0.390	0.425	0.560
Rubber, No. 1 std., ribbed smoked sheets, N.Y., lb.	0.423	0.433	0.485

Fuels

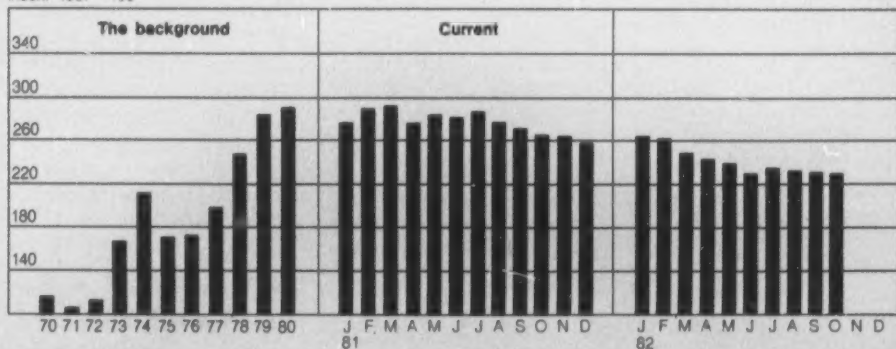
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	25.75	24.50	24.25
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	33.75	32.25	32.77
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.920	0.950	1.025
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.933	0.949	1.008
Heating oil, No. 2, Chi., bulk, gal.	0.980	0.951	0.968
Heating oil, No. 2, N.Y., bulk, gal.	1.030	0.977	0.998
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.85	25.35	24.00
Jet kerosene, gal.	0.97	0.99	0.98
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.525	0.460	0.440

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

Raw material price barometer

Latest month 235.5
Month before 239.0
Year ago 270.5

Index: 1967 = 100



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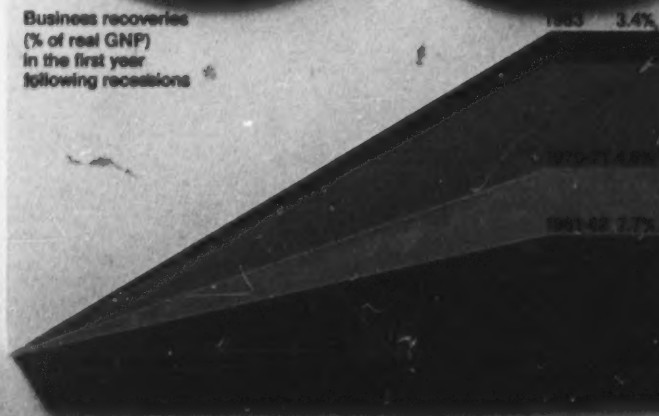
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FORECAST 83

Business recovers
(% of real GNP)
in the first year
following recessions



**Business will be better than in 1982.
But the upturn will be modest—
nothing like other
post-recession bouncebacks.**

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**Helping you
manage
the business
of buying**



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PW PREDICTS

Robert S. Reichard, prices, economics editor

Unanimity on inflation rate

It's virtually unanimous! Inflation won't create any serious problems in the year just now getting underway.

Indeed, each of the special outlooks contained in *PurchasingWorld's* "Forecast '83" section is pretty conclusive on this score. More to the point:

- Dun & Bradstreet's corporate economist, Joseph Duncan, sees the GNP price level rising only about 5%—and maybe even a bit less than that.

- Dr. Louis J. Paradiso, our consulting editor on economics, comes up with virtually the same conclusion, putting the increase at 5.2%



- A compendium of the nation's top econometric models suggests a similar pattern—with all of the estimates falling into the 5.4-5.8% range.

- Major corporate suppliers, estimating the price advance of their own products for the new year, are talking in terms of an average 5.5% advance.

- DRI's quarterly outlook, which also focuses on individual product lines, is even more optimistic. Its averages, as summarized by the industrial producer price index, are expected to rise by only 5%.

- A majority of *PurchasingWorld* survey respondents estimate the 1983 advance in their own procurement costs to be in the 4-6% range.

- The NAPM Business Survey Committee tells much the same story, with only 23% anticipating hikes during the first six months of the year.

Moreover, there's plenty of economic evidence to back up these forecasts. It's hard to ignore, for example, such inflation-inhibiting factors as:

- (1) Low operating rates. Even with some recovery, the overall factory utilization rate won't go much above 75%—hardly high enough to make for any meaningful change in today's pervasive buyers' markets.

- (2) Reduced labor cost pressures. Current trends point to only about a 5-7% increase in unit labor costs—well under levels normally associated with double-digit inflation.

- (3) A continuing strong dollar. This supports continued import competition—particularly in such key areas as steel, autos, machinery, and component parts.

- (4) A lingering oil glut. Indeed, there's even talk of new price cuts here, if OPEC doesn't get its act together again over the next few months.

To be sure, it may be possible to quarrel with some of the specific projections. But by and large, it's hard to ignore the overwhelming number of signs pointing toward continued moderation.

In short, it looks like another "no-sweat" year—at least as far as overall price averages are concerned.

Molybdenum

Overcapacity and poor demand from specialty steel makers continue to put downward pressure on prices. Producers, for example, have just dropped their asking price for the oxide down to \$4.40/lb—a hefty \$1.45/lb under the previous listing. And even that seems high when compared to merchant quotes, which in recent days have been running under \$3/lb. But look for some stabilizing, albeit at recent low

levels, as production cuts begin to have an impact and demand slowly begins to improve. On the other hand, don't expect any real sharp bounceback—with prices continuing to remain far under the official \$8.50/lb price that prevailed just one year ago.

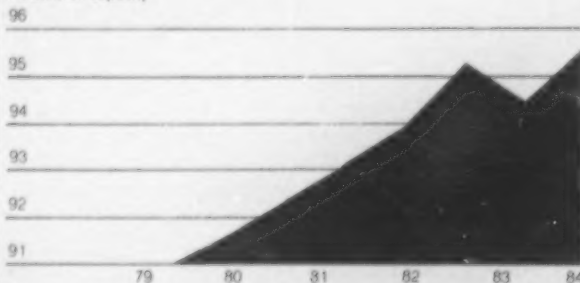
Benzene

Still plenty of weakness here—sparked by spot prices, which in recent weeks have been as low as \$1.45/gal. Rule of thumb:

Coated paper

Free sheet (operating rate)

Percent of capacity



Source: First Manhattan Company

Don't expect markets for coated paper to be quite as strong as they've been in recent years. At least, that's how analysts at the First Manhattan Company see it.

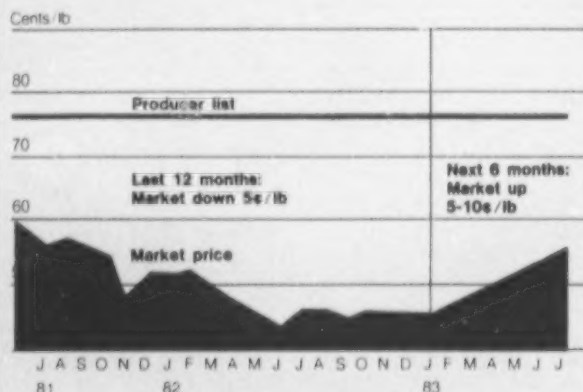
Estimates by the New York City-based brokerage house suggest that production potential for coated paper will rise 9% over the new year (to 6,242,000 tons)—on top of 1982's smaller 4% advance.

The problem, of course, is that shipments aren't keeping pace (they remained unchanged in 1982 and are expected to rise only 4½% in 1983). Upshot: falling operating rates—particularly in the groundwood sector where the 90%-plus rates which prevailed as recently as 1981 are expected to fall to only 82% this year.

PW PREDICTS

Aluminum

Aluminum ingot



CURRENT SITUATION: The light metal remains on the ropes—with little indication of any nearterm improvement. Producer ingot, for example, is being heavily discounted. Imports have also become a price factor—especially common alloy sheet which is coming in as much as 8-10¢/lb under domestic levels. One firm has announced that as of January 1 it will no longer meet ingot tags below 53¢/lb for contract customers. But this is not expected to have much of a firming effect unless other producers adopt similar policies.

DEMAND: 1983 is bound to be better than last year when domestic shipments dropped 10% to only a bit over 6 million tons. But the question is just how much better. Right now, some producers are talking in terms of an 8% jump to 6.5 million tons. Better-than-average gains are seen for the big construction market where as much as a 15% advance is possible. But that would still not recoup last year's 25% drop.

SUPPLY: Still-high inventories—despite U.S. smelter cutbacks—tell the story. As of last report, North American stocks, despite a topping out in early fall, were still running better than 30% above a year earlier. More important, capacity seems far in excess of needs—not only for this year but for 1984 as well. Note, for example, that the domestic industry currently is utilizing only about 61% of its potential.

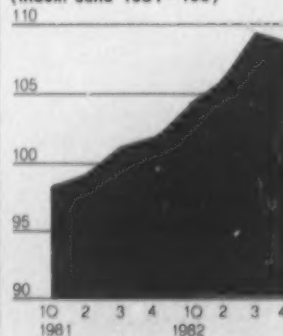
PRICE OUTLOOK: Discounts will, of course, eventually have to narrow. And with good reason. Some estimates put U.S. production costs near 65¢/lb—far above current market price levels. But the firming will come slowly, with perhaps a 50-55¢/lb ingot price possible by summer if key building and auto markets pick up as expected. And with this should come comparable gains in most semifabricated lines.

Whenever these spot tags fall 5¢/gal or more under contract levels, the latter eventually weaken. Also, don't rule out further small declines in toluene and virgin xylene. The key factor behind all the easiness (in addition to disappointing demand): the current weakness in crude oil quotations.

Machine tools

Lagging orders (still running close to 50% under yearago levels) and shrinking backlogs are taking their toll on prices—with Uncle Sam's official metalworking tool price index virtually unchanged since this past summer. Factor in unreported discounts, and actual transaction prices have probably dropped quite a bit. And even this doesn't tell the whole story. Buyers report that Japanese tools are coming in at as much as 50% under comparable domestic levels. And good financing terms are available, too. Another sure-fire sign of intensified overseas competition: Japan now is said to have captured one-third of the entire U.S. numerically controlled tool market.

Metal-forming machine tools
(Index: June 1981 = 100)



Ethylene

Prices of the basic petrochemical building block are moving up again—with producers posting a hefty 3-4¢/lb increase calculated to bring lists up into the 24½-25½¢/lb range. But this seems far too much in today's slack markets where demand for major derivatives remains far under normal levels. Best bet: The new list will only mean a new highpoint from which buyers can start serious negotiations. In terms of actual market prices—a 21-22¢/lb quote seems realistic—about 1-2¢/lb above the near-20¢/lb level of the last quarter 1982. In any event, this is far under earlier peaks of near 28¢/lb—though above the recent 15½¢/lb low. Behind the new price boosting attempt: Rising costs of the chemical's key feedstocks—liquified petroleum gases.

Zinc

The market is in a shambles—with some dealer metal recently going for as low as 35¢/lb—and LME tags several cents lower than that. Not even some Chinese buying and the closing down of Asarco's Corpus Christi facility has been enough to buoy an extremely depressed market—as both global and U.S. stocks continue to mount (with the latter up 21% in October alone). Consumers are also giving more emphasis to merchant metal as they strive to keep their own costs within bounds. Nor does 1983 look all that great. True, the International Lead & Zinc Study Group